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MILLENNIUM CHALLENGE CORPORATION

MCC FR 16-04

Report on Countries That Are Candidates for Millennium Challenge Account Eligibility in Fiscal Year 2017 and Countries That Would Be Candidates But For Legal Prohibitions

AGENCY: Millennium Challenge Corporation.

ACTION: Notice.

Section 608(a) of the Millennium Challenge Act of 2003 requires the Millennium Challenge Corporation to publish a report that identifies countries that are “candidate countries” for Millennium Challenge Account assistance during FY 2017. The report is set forth in full below.

Dated: August 25, 2016

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Report on Countries that are Candidates for Millennium Challenge Compact Eligibility for Fiscal Year 2017 and Countries that would be Candidates but for Legal Prohibitions

Summary

This report to Congress is provided in accordance with section 608(a) of the Millennium Challenge Act of 2003, as amended, 22 U.S.C. §§7701, 7707(a) (the Act).

The Act authorizes the provision of assistance for global development through the Millennium Challenge Corporation (MCC) for countries that enter into a Millennium Challenge

Compact with the United States to support policies and programs that advance the progress of such countries to achieve lasting economic growth and poverty reduction. The Act requires MCC to take a number of steps in selecting countries with which MCC will seek to enter into a compact, including determining the countries that will be eligible countries for fiscal year (FY) 2017 based on (a) a country's demonstrated commitment to (i) just and democratic governance, (ii) economic freedom, and (iii) investments in its people; (b) the opportunity to reduce poverty and generate economic growth in the country; and (c) the availability of funds to MCC. These steps include the submission of reports to the congressional committees specified in the Act and the publication of notices in the *Federal Register* that identify:

The countries that are "candidate countries" for FY 2017 based on their per capita income levels and their eligibility to receive assistance under U.S. law and countries that would be candidate countries but for specified legal prohibitions on assistance (section 608(a) of the Act);

The criteria and methodology that the MCC Board of Directors (Board) will use to measure and evaluate the relative policy performance of the "candidate countries" consistent with the requirements of subsections (a) and (b) of section 607 of the Act in order to determine "eligible countries" from among the "candidate countries" (section 608(b) of the Act); and

The list of countries determined by the Board to be "eligible countries" for FY 2017, identification of such countries with which the Board will seek to enter into compacts, and a justification for such eligibility determination and selection for compact negotiation (section 608(d) of the Act).

This report is the first of three required reports listed above.

Candidate Countries for FY 2017

The Act requires the identification of all countries that are candidate countries for FY 2017 and the identification of all countries that would be candidate countries but for specified legal prohibitions on assistance. Under the terms of the Act, sections 606(a) and (b) set forth the two income tests countries must satisfy to be candidate countries.¹ However, for FY 2016, those categories were defined by MCC's FY 2016 appropriations act, the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2016 (the FY 2016 SFOAA), which is found at Division K of the Consolidated Appropriations Act, 2016 (Pub. L. 114-113). Specifically, the FY 2016 SFOAA used the same definitions that have been used since the FY 2012 appropriations act and defines low income candidate countries as the 75 poorest countries as identified by the World Bank and provided that a country that changes during the fiscal year from low income to lower middle income (or vice versa) will retain its candidacy status in its former income category for the fiscal year of transition and the two subsequent fiscal years. Assuming these definitions will be used again for FY 2017, MCC is using them for purposes of this report.²

Under the redefined categories, a country will be a candidate country for FY 2017 if it:

Meets one of the following tests:

¹ Sections 606(a) and (b) of the Act provide that a country will be a candidate country for purposes of eligibility if it (1) has a per capita income equal to or less than the historical ceiling of the International Development Association eligibility for the fiscal year involved (the "low income category") or (2) is classified as a lower middle income country in the then most recent edition of the World Development Report for Reconstruction and Development published by the International Bank for Reconstruction and Development and has an income greater than the historical ceiling for International Development Association eligibility for the fiscal year involved (the "lower middle income category"); and is not ineligible to receive U.S. economic assistance under part I of the Foreign Assistance Act of 1961, as amended (the Foreign Assistance Act), by reason of the application of the Foreign Assistance Act or any other provision of law.

² If the language relating to the definition of low income candidate countries is not enacted or is changed for MCC's FY 2017 appropriations act, MCC will revisit the selection process once the FY 2017 appropriations act is enacted and will conduct the selection process in accordance with the Act and applicable provisions for FY 2017.

Has a per capita income that is not greater than the World Bank's lower middle income country threshold for such fiscal year (\$4,035 gross national income per capita for FY 2017); and is among the 75 lowest per capita income countries, as identified by the World Bank; or

Has a per capita income that is not greater than the World Bank's lower middle income country threshold for such fiscal year (\$4,035 gross national income per capita for FY 2017); but is *not* among the 75 lowest per capita income countries as identified by the World Bank;

And

Is not ineligible to receive U.S. economic assistance under part I of the Foreign Assistance Act of 1961, as amended (the Foreign Assistance Act), by reason of the application of the Foreign Assistance Act or any other provision of law.

Due to the provisions requiring countries to retain their former income classification for three fiscal years, changes from the low income to lower middle income categories or vice versa for FY 2017 will go into effect for FY 2020. Countries transitioning to the upper middle income category do not remain in the candidate pool.³

Pursuant to section 606(c) of the Act, the Board identified the following countries as candidate countries under the Act for FY 2017. In so doing, the Board referred to the prohibitions on assistance to countries for FY 2016 under the FY 2016 SFOAA.

Candidate Countries: Low Income Category

Afghanistan

³ In FY 2017, the World Bank updated its estimates of gross national incomes per capita resulting in Georgia graduating to upper middle income status after having been a low income candidate country as recently as FY 2015. Previously, Paraguay graduated to upper middle income status after having been a low income country for FY 2014. Both have transitioned to upper middle income status without the benefit of gradual reclassification. Further, in FY 2016, Mongolia experienced a similar reclassification to upper middle income status, removing its gradual reclassification benefit. Although Mongolia has re-entered the candidate pool for FY 2017, it does so as a lower middle income country and does not retain the gradual graduation benefit it would have had if it had not exited from the candidate pool for FY 2016. As a result, the removal of Georgia, Mongolia, and Paraguay from the low income category due to their classification as upper middle income countries means that there are only 72 low income countries for FY 2017 (eight of which are legally prohibited).

Bangladesh
Benin
Bhutan
Burkina Faso
Burundi
Cambodia
Cameroon
Central African Republic
Chad
Comoros
Cote d'Ivoire
Democratic Republic of Congo
Djibouti
Egypt
Ethiopia
Gambia
Ghana
Guatemala
Guinea
Guinea-Bissau
Haiti
Honduras
India
Kenya
Kiribati
Kyrgyz Republic
Lao PDR
Lesotho
Liberia
Madagascar
Malawi
Mali
Mauritania
Micronesia
Moldova
Morocco
Mozambique
Nepal
Nicaragua
Niger
Nigeria
Pakistan
Papua New Guinea
Philippines
Republic of Congo
Rwanda

Samoa
Sao Tome and Principe
Senegal
Sierra Leone
Solomon Islands
Somalia
Sri Lanka
Swaziland
Tajikistan
Tanzania
Togo
Uganda
Uzbekistan
Vanuatu
Vietnam
Yemen
Zambia

Candidate Countries: Lower Middle Income Category

Armenia
Cabo Verde
El Salvador
Indonesia
Kosovo
Mongolia
Timor Leste
Togo
Tunisia
Ukraine

Countries that Would Be Candidates but for Legal Provisions that Prohibit Assistance

Countries that would be considered candidate countries for FY 2017, but are ineligible to receive United States economic assistance under part I of the Foreign Assistance Act by reason of the application of any provision of the Foreign Assistance Act or any other provision of law, are listed below. This list is based on legal prohibitions against economic assistance that apply as of July 22, 2016.

Prohibited Countries: Low Income Category

Bolivia is subject to foreign assistance restrictions pursuant to section 706(3) of the Foreign Relations Authorization Act, FY 2003 (P.L. 107-228), regarding adherence to obligations under international counternarcotics agreements and other counternarcotics measures.

Burma is subject to foreign assistance restrictions, including restrictions pursuant to section 570 of the FY 1997 Foreign Operations, Export Financing, and Related Programs Appropriations Act (P.L. 104-208), which prohibits assistance to the government of Burma until it makes measurable and substantial progress in improving human rights practices and implementing democratic governance.

Eritrea is subject to foreign assistance restrictions, including restrictions due to its status as a Tier 3 country under the Victims of Trafficking and Violence Protection Act of 2000 (22 U.S.C. §§7101 et seq.).

North Korea is subject to foreign assistance restrictions, including restrictions pursuant to section 7007 of the FY 2016 SFOAA, which prohibits direct assistance to the government of North Korea.

South Sudan is subject to foreign assistance restrictions pursuant to section 7042(i)(2) of the FY 2016 SFOAA, which prohibits, with limited exceptions, assistance to the central government of South Sudan until the Secretary of State certifies and reports to Congress that such government is taking effective steps to end hostilities and pursue good faith negotiations for a political settlement of the internal conflict; provide access for humanitarian organizations; end the recruitment and use of child soldiers; protect freedoms of expression, association, and

assembly; reduce corruption related to the extraction and sale of oil and gas; and establish democratic institutions, including accountable military and police forces under civilian authority.

Sudan is subject to foreign assistance restrictions, including restrictions pursuant to section 7042(j) of the FY 2016 SFOAA, which prohibits (with limited exceptions) assistance to the government of Sudan.

Syria is subject to foreign assistance restrictions, including restrictions pursuant to section 7007 of the FY 2016 SFOAA, which prohibits direct assistance to the government of Syria.

Zimbabwe is subject to foreign assistance restrictions, including restrictions pursuant to section 7042(k)(2) of the FY 2016 SFOAA, which prohibits (with limited exceptions) assistance for the central government of Zimbabwe unless the Secretary of State certifies and reports to Congress that the rule of law has been restored, including respect for ownership and title to property, and freedoms of expression, association, and assembly.

Countries identified above as candidate countries, as well as countries that would be considered candidate countries but for the applicability of legal provisions that prohibit U.S. economic assistance, may be the subject of future statutory restrictions or determinations, or changed country circumstances, that affect their legal eligibility for assistance under part I of the Foreign Assistance Act by reason of application of the Foreign Assistance Act or any other provision of law for FY 2017.

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